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Message Text

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PAGE 01 STATE 276785

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E.O. 11652: GDS

TAGS: EFIN

SUBJECT: STATUS OF ISSUES INVOLVING IMF GOLD

FOR ASSISTANT SECRETARY ENDERS

REF: YOUR 30391

1. THE CHIEF DIFFICULTY STANDING IN THE WAY OF THE IMPLEMENTATION OF LAST SEPETMBER'S GOLD COMPROMISE HAS BEEN THE TIMING OF THREE PRINCIPAL ELEMENTS OF THAT COMPROMISE: (1) THE SALE OF 1/6 OF OF IMF GOLD HOLDINGS FOR THE BENEFIT OF LDCS; (2) THE SO-CALLED "RESTITUTION" OF ANOTHER 1/6 OF IMF GOLD TO MEMBER COUNTRIES; (3) THE LIFTING OF THE LEGAL RESTRICTIONS ON CENTRAL BANK GOLD DEALINGS, SUBJECT TO THE AGREED SAFEGUARDS.

2. IT HAD BEEN OUR POSITION THAT SALE OF FUND GOLD FOR THE BENEFIT OF LDCS COULD AND SHOULD PROCEED AS SOON AS POSSIBLE, SINCE THE NEED WAS URGENT, AND SINCE IT WAS LEGAL-
CONFIDENTIAL

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PAGE 02 STATE 276785

LY POSSIBLE UNDER THE PRESENT ARTICLES OF AGREEMENT. HOW-

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

EVER, WE SAW NO NEED, AND SOME POSSIBLE DISADVANTAGES, TO HAVING RESTITUTION ALSO PROCEED QUICKLY IN PARALLEL WITH GOLD SALES FOR THE TRUST FUND. WE ALSO OBJECTED TO ANY DE FACTO ABROGATION (PRIOR TO AMENDMENT OF THE ARTICLES) OF THE LEGAL RESTRAINTS ON CENTRAL BANK GOLD DEALINGS INVOLVED IN THE EXISTENCE OF THE OFFICIAL GOLD PRICE.

3. THE EUROPEANS BACKED THE FRENCH IN THEIR INSISTENCE THAT ALL ELEMENTS OF THE GOLD COMPROMISE MUST PROCEED SIMULTANEOUSLY. THE FRENCH CLEARLY WISHED TO HAVE THE FREEDOM TO OFFSET ANY DEPRESSING EFFECT OF TRUST FUND GOLD SALES ON GOLD PRICES. (THEY WOULD HAVE THIS FREEDOM FOLLOWING ELIMINATION OF THE OFFICIAL PRICE, WITHIN THE AGREED GLOBAL LIMIT ON OFFICIAL GOLD HOLDINGS.)

4. WE HAVE NOW AGREED IN PRINCIPLE TO SIMULTANEOUS IMPLEMENTATION OF THE THREE ELEMENTS. HOWEVER, ALTHOUGH IT IS LEGALLY POSSIBLE TO PROCEED WITH RESTITUTION, IT IS NOT AT ALL CLEAR HOW ONE LEGALLY GETS AROUND THE CLEAR AND EXPLICIT PROVISION OF ARTICLE IV, SECTION 2 THAT NO MEMBER SHALL BUY GOLD AT A PRICE ABOVE THE OFFICIAL ONE. (THE FRENCH, OF COURSE, HAVE"ARGUED THAT THE FAILURE TO OBSERVE THE EXCHANGE RATE PROVISION OF THE ARTICLES RELIEVES THEM OF OBLIGATION UNDER THE GOLD PRICE PROVISION, BUT WE AND OTHERS HAVE NEVER ACCEPTED THIS.)

5. DESPITE REMAINING LEGAL DIFFICULTIES, OUR CONCESSION ON THIS HAS PRODUCED A GREATLY IMPROVED ATMOSPHERE IN IMF DISCUSSION ON THE IMPLEMENTATION OF THE AGREEMENT ON FUND GOLD SALES AND THE TRUST FUND. WITH THIS NEW ATMOSPHERE, IT WILL PROBABLY BE POSSIBLE TO RESOLVE THE REMAINING GOLD-RELATED ISSUES. THESE INCLUDE IN PARTICULAR THE FOLLOWING:

(A) ISSUES INVOLVED IN THE DIRECT TRANSFER OF GOLD PROFITS TO LDCS. WE ARE RELUCTANTLY GOING ALONG WITH THE IDEA THAT, OF THE PROFITS FROM THE SALE OF 1/6 OF FUND GOLD FOR LDCS, LDCS SHOULD RECEIVE DIRECTLY A PORTION CORRESPONDING TO THEIR QUOTA SHARE. HOWEVER, WE HAVE SOUGHT TO RESTRICT THIS DIRECT TRANSFER SO AS TO EXCLUDE CONFIDENTIAL

THE NON-INDUSTRIA' DEVELOPED COUNTRIES AND THE AFFLUENT OIL EXPORTERS. WE HAVE NOT BEEN ABLE TO GET SUPPORT ON THIS, AND APPEAR TO BE FIGHTING A LOSING

BATTLE. (THE AMOUNTS INVOLVED FOR THE OPEC COUNTRIES ARE NOT LARGE, ALTHOUGH THE NON-INDUSTRIAL DEVELOPED COUNTRIES DO HAVE A CONSIDERABLE QUOTA SHARE.) LDCS HAVE ALSO BEEN PRESSING FOR DIRECT TRANSFER OF THE GOLD ITSELF, RATHER

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

THAN JUST PROFITS FROM ITS SALE (IN ADDITION TO THEIR SHARE OF THE AGREED RESTITUTION). WE AND OTHERS HAVE OBJECTED TO THIS EXPANSION OF THE ORIGINAL AGREEMENT, AND IT SEEMS EFFECTIVELY DEAD.

(B) ISSUES INVOLVED IN THE METHOD OF TRANSFER OF GOLD TO THE TRUST FUND. THIS WOULD BE DONE THROUGH THE PROVISION THAT THE FUND MAY SELL GOLD TO MEMBERS TO REPLENISH CURRENCY HOLDINGS. THE PROFITS FROM THE GOLD WOULD THEN BE TRANSFERRED TO THE TRUST FUND BY EITHER: (I) SALE BY MEMBERS OF GOLD TO THE TRUST FUND AT THE OFFICIAL PRICE, OR (II) TRANSFER TO THE TRUST FUND OF REALIZED PROFITS FROM MEMBER SALES OR OF "NOTIONAL PROFITS" IF THE MEMBER DECIDED NOT TO SELL THE GOLD. WE AND THE FUND STAFF HAVE FAVORED THE FIRST OPTION, BUT WE WILL PROBABLY BE FLEXIBLE IF OTHER COUNTRIES PREFER ANOTHER FOR THEMSELVES.

(C) SALE OF GOLD BY THE TRUST FUND. WE HAVE ADVOCATED A PROCEDURE WHEREBY THE TRUST FUND WOULD ANNOUNCE AN ORDERLY PROGRAM FOR GOLD SALES TO THE MARKET OVER THE ANTICIPATED LIFE OF THE TRUST FUND -- TWO TO THREE YEARS. THE PROCEEDS COMBINED WITH CONCESSIONAL CONTRIBUTIONS, WOULD BE USED TO FINANCE TRUST FUND LOANS. THE FUND STAFF HAS PROPOSED INSTEAD THAT THE PROFITS FROM THE SALE OF GOLD BE USED TO PROVIDE AN INTEREST SUBSIDY FROM THE COST OF TRUST FUND BORROWINGS AT COMMERCIAL RATES. THIS WOULD ALLOW SMALLER GOLD SALES PER DOLLAR OF LENDING, AND STRETCH OUT GOLD SALES OVER TIME. THE CHOICE BETWEEN THESE TWO APPROACHES IS STILL VERY MUCH UP IN THE AIR. KISSINGER

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